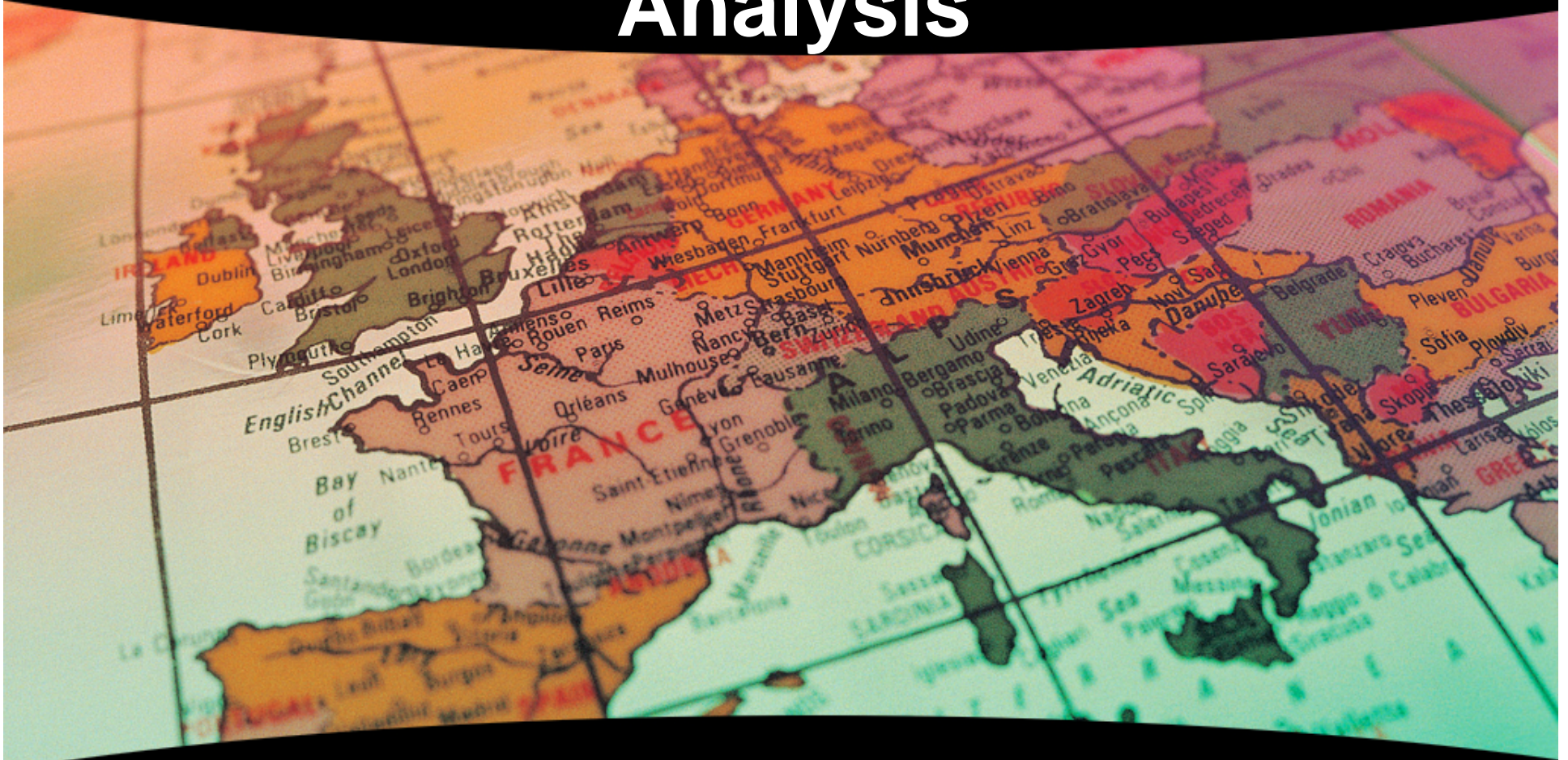


Political and Economic Analysis



Chapter 3 Section 1

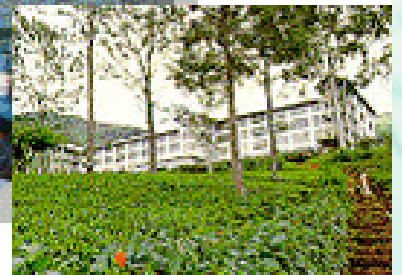
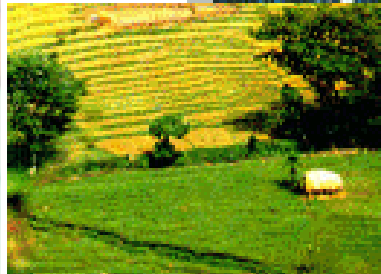
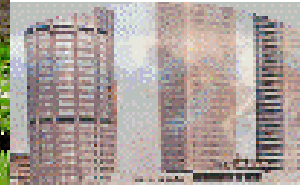
What is an Economy? -- Ch 3 Sec. 1

What you'll learn . . .

- What is meant by the term economy
- The factors of production
- The concept of scarcity
- The difference between a traditional, a market, a command, and a mixed economy

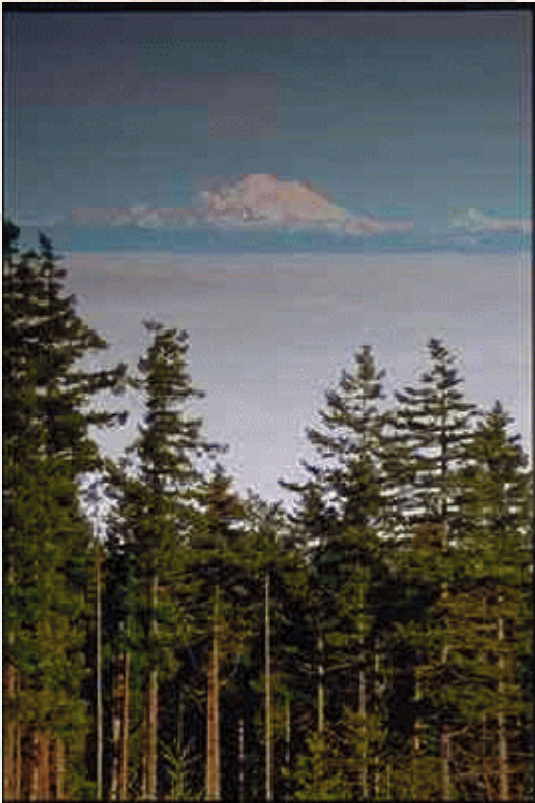
Economy

- The way in which a nation makes economic choices.
- Also called an Economic System



Resources = Factors of Production

- Resources are all the things used in producing goods and services. The technical term for it is **factors of production**.



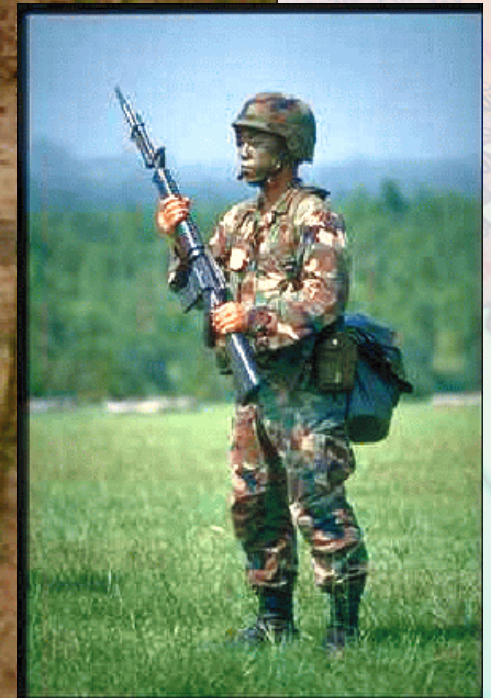
Resources = Factors of Production

- **Land** -- everything on the earth that is in its natural state, or the Earth's natural resources.



Resources = Factors of Production

- **Labor** -- all the people who work in the economy



Resources = Factors of Production

- **Capital** -- includes money needed to start and operate a business. It also includes the goods used in the production process. Factories, office buildings, computers, and tools are all capital resources.



Resources = Factors of Production

- **Entrepreneurship** -
 - the skills of people who are willing to risk their time and money to run a business.



Economic Systems are needed because:

- **Scarcity** -- no one country has enough resources to supply everything that is needed or wanted which creates scarcity.
- Scarcity forces nations to make economic choices.



Three Economic Questions

- Nations must answer three basic questions when deciding how to use their limited resources.
- **What** goods and services will be produced?
- **How** should goods and services be produced?
- **For whom** should the goods and services be produced?

Types of Economic Systems

- **Traditional Economy** – Traditions and rituals answer the basic questions. Answers are often based on cultural or religious practices and ideals that have been passed down for generations.
- **Market Economy** – In a pure market economy there is no government involvement in economic decisions.
- **Command Economy** – A system in which the government controls the factors of production and makes all decisions about their use.
- **Mixed Economies** – All economies in the world today (including the Free Enterprise System in the U.S.) are mixed with varying degrees of government regulation

Types of Mixed Economies

- **Capitalism** -- Characterized by private ownership of businesses and marketplace competition.



Political Foundations of Capitalism

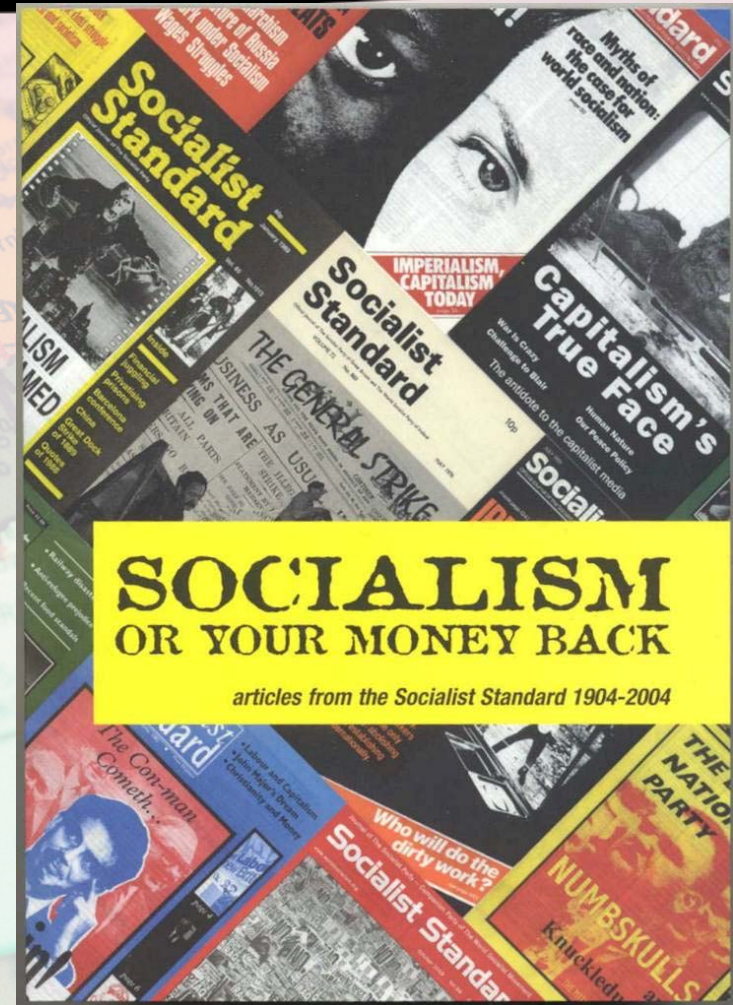
- The political system most frequently associated with capitalism is democracy.



DEMOCRACY

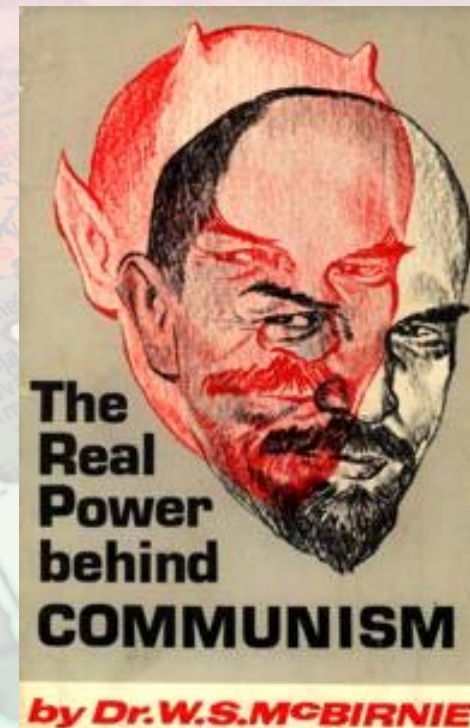
Types of Mixed Economies

- **Socialism** – there is increased government involvement in people's lives and the economy.
 - Tend to have more social services to ensure a certain standard of living for everyone
 - Government runs key industries and makes economic decisions



Types of Mixed Economies

- **Communism** – Countries have a **totalitarian** form of government, which means that the government runs everything.
 - All who are able to work are assigned jobs
 - Housing and schooling are decided by the government



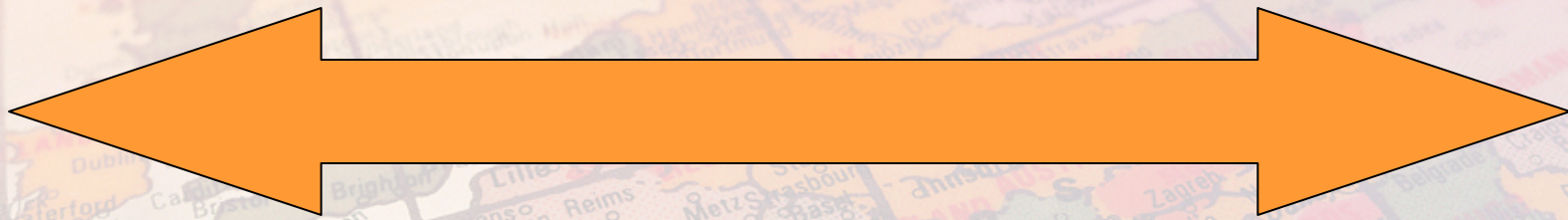
Types of Mixed Economies

- **Economies in Transition** – the breakup of the former Soviet Union probably provides the best examples of societies making the difficult change from command to market economies.



Command Economy

Market Economy



Communism

Socialism

Capitalism

If you place economic systems on a continuum, they would look something like this.